

Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 COME-00 TRSE-00 XMB-02

FEA-01 AGR-05 CEA-01 CIAE-00 DODE-00 FRB-03 H-02

INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 STR-04 TAR-01 USIA-06 PRS-01 SP-02

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DRAFTED BY EB/OT/TA:RMEYER:LV

APPROVED BY EB/ITP:GLITMAN

COMMERCE:MPRUIETT

TREASURY:COUELETTE

EXIM:DAMBACH

EUR/CAN:BLAKEMORE

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA PRIORITY

INFO USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ETRD, GATT

SUBJECT: CANADIAN CONSIDERATION OF EXPORT INFLATION
INSURANCE SCHEME

REF : OTTAWA 2245

1. UPON CONFIRMATION OF THE ACCURACY OF PRESS REPORTS IN
REFTEL EMBASSY IS REQUESTED TO APPROACH GOC ON AN URGENT
BASIS TO CONVEY OUR SURPRISE AND INTENSE CONCERN OVER
REPORTS THAT CANADA IS CONSIDERING ADOPTION OF AN EXPORT
INFLATION INSURANCE PLAN SIMILAR TO THOSE CURRENTLY OPERA-
TING IN SOME EUROPEAN COUNTRIES. WE VIEW THESE SCHEMES
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AS EXPORT SUBSIDIES WHICH VIOLATE ARTICLE XVI OF THE GATT,

AND WE HAVE SO STATED IN THE GATT COUNCIL. ADOPTION BY CANADA OF SUCH A SCHEME WOULD ALSO BE A CLEAR VIOLATION OF ITS UNDERTAKING IN THE RECENTLY RENEWED OECD TRADE PLEDGE IN VIEW OF CANADA'S RELATIVELY HEALTHY TRADE BALANCE (WHEN COMPARED TO THE REST OF THE WORLD), THE OBJECTIVE NEED FOR ARTIFICIALLY STIMULATIVE MEASURES SUCH AS THIS IS NOT AT ALL CLEAR. YOU SHOULD IMPRESS ON THE CANADIANS THAT WE WOULD VIGOROUSLY OPPOSE THEIR ADOPTION OF SUCH A SCHEME AND WOULD TAKE ALL STEPS NECESSARY TO PROTECT OURSELVES FROM ITS EFFECTS.

2. WE ARE DISTURBED BY REFTEL REFERENCE TO A TOTALLY INACCURATE JUNE 11 PRESS REPORT OF OUR POSITION ON THESE

SCHEMES. OUR POSITION IS, IN FACT, COMPLETELY OPPOSITE TO THAT REPORTED. THE U.S. HAS NOT CONSIDERED ADOPTING SUCH A SCHEME NOR HAVE WE THREATENED THE EUROPEANS WITH RETALIATION IN KIND. WE HAVE OPPOSED ADOPTION OR EXPANSION OF INFLATION INSURANCE BILATERALLY, IN THE OECD, AND IN THE GATT. WE PLAN TO NOTIFY SUCH SCHEMES TO THE SUBSIDIES GROUP OF THE MTN AND WILL PRESS TO HAVE THEM COVERED BY ANY SUBSIDIES CODE WHICH RESULTS FROM THE MTN. WE RECOGNIZE THAT, AS A LEADING TRADING NATION, ADOPTION OF SUCH A SCHEME BY THE U.S., ASIDE FROM ITS HIGH COST TO THE TAXPAYER, WOULD INEVITABLY LEAD TO A RETALIATORY SPIRAL RESULTING IN A NET LOSS FOR EVERY TRADING NATION.

3. WE ARE ALSO PUZZLED BY THE APPARENT CANADIAN BELIEF THAT THESE INSURANCE SCHEMES ARE SPREADING RAPIDLY, LEADING TO A DESIRE NOT TO BE LEFT BEHIND. THE FACTS ARE THAT FRANCE HAS HAD ITS PLAN SINCE 1948, THAT OPERATION OF THE ITALIAN PLAN HAS BEEN SUSPENDED, THAT THE SPANISH AND FINNISH PLANS CANNOT POSSIBLY CONSTITUTE A SEVERE COMPETITIVE DISADVANTAGE TO CANADIAN EXPORTERS IN VIEW OF THEIR SMALL SIZE, AND THAT THE UK'S PLAN IS IN RESPONSE TO INTERNAL ECONOMIC CONDITIONS AND CIRCUMSTANCES THAT HAVE VERY LITTLE RELEVANCE TO A COUNTRY SUCH AS CANADA. OTHER MAJOR EXPORTING COUNTRIES (FRG, JAPAN) DO NOT HAVE SUCH PLANS, AND WE UNDERSTAND THEY ARE RESISTING DOMESTIC LIMITED OFFICIAL USE

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PRESSURES TO IMPLEMENT THEM. WE WOULD HOPE THAT CANADA WOULD, IN FACT, JOIN WITH THE U.S. IN THE GATT, THE MTN, AND THE OECD, IN OPPOSING THE SPREAD OF EXPORT STIMULATIVE SCHEMES WHICH CAN ULTIMATELY LEAD TO A SELF-DEFEATING COMPETITIVE SPIRAL AND SERIOUSLY COMPROMISE THE LIBERAL TRADING SYSTEM TO WHICH CANADA IS COMMITTED. KISSINGER

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